NEWSLETTER SEPTEMBER 2016

RESIDENTIAL PROPERTY INCOME AND INTEREST RELIEF

The government has issued guidance and examples on the restriction of income tax relief for interest costs incurred by landlords of residential properties. The new rules, which are phased in from April 2017, only apply to residential properties and do not apply to companies or furnished holiday lettings.

From April 2017 income tax relief will start to be restricted to the basic rate of tax. The restriction will be phased in over four years and therefore be fully in place by 2020/21. In the first year the restriction will apply to 25% of the interest, then 50% the year after and 75% in the third.

The restriction may result in additional amounts of tax being due but will depend on the marginal rate of tax for the taxpayer. Basic rate taxpayers should not be substantively affected by these rules. A higher rate taxpayer will, in principle, get 20% less relief for finance costs. However the calculation method may mean that some taxpayers move into the higher rate tax brackets as the following example illustrates:

Consider the 2020/21 tax year when the transitional period is over. Assume that the personal allowance is £11,000, the basic rate band £32,000 and the higher rate band starts at £43,000.

Assume Ellisha has a salary of £28,000, rental income before interest of £23,000 and interest on the property mortgage of £8,000. Under the current tax rules, taxable rental income is £15,000. She will not pay higher rate tax as her total income is £43,000 - the point from which higher rate tax is payable.

With the new rules, taxable rental income is £23,000. So £8,000 is taxable at 40% - £3,200. Interest relief is given after having computed the tax liability on her income. The relief is £8,000 at 20% - £1,600. So an extra £1,600 tax is payable.

Other complications

It should be noted that the tax reduction cannot be used to create a tax refund. So the amount of interest relief is restricted where either total property income or total taxable income (excluding savings and dividend income) of the landlord is lower than the finance costs incurred. The unrelieved interest is carried forward and may get tax relief in a later year.

Child benefit is clawed back if ‘adjusted net income’ is above £50,000. Interest will not be deductible in the calculation of ‘adjusted net income’.

The personal allowance is reduced if ‘adjusted net income’ is above £100,000.

Please contact us if you would like advice on how these rules will affect you.

TRP LATEST PENSIONS AUTO ENROLMENT AWARENESS

According to the latest research by the TPR, based on surveys carried out between February and April 2016, the understanding amongst small employers of their duties under pensions auto enrolment saw a significant rise from 68% to 81%.

Executive Director of Automatic Enrolment, Charles Counsell said:

‘More than 9 in 10 small employers are now aware of automatic enrolment, and there is now almost universal engagement from business advisers helping their clients to carry out their duties.

This is the first employers’ survey since large numbers of small and micro employers have begun to visit TPR’s website for help in meeting their duties. It’s great to see such positive feedback, with 79% of the employers who used our website finding all or most of what they needed.’

Other key findings from the employers' survey were as follows:

- *Understanding remained largely unchanged for micro employers, rising from 56% to 60%.*
- *Direct communications from TPR continued to be the main catalyst for employers to start preparing for automatic enrolment. Of those employers who stated that both TPR direct communications and advertising prompted action, nearly two thirds stated the advertising encouraged them to look again at the direct communications.*
- *The vast majority (90%) of employers continued to express confidence in future compliance with automatic enrolment (93% in Autumn 2015).*
- *The majority of employers continued to have positive perceptions of workplace pensions. However, automatic enrolment was still more likely to be perceived as a challenge among micro employers than among small employers.*

If you would like help with pensions auto enrolment please contact us.

HMRC LATEST 'TAX CHEAT' TARGETS

HMRC have launched a new taskforce to tackle wealthy tax cheats who are living beyond their means in Northern Ireland and expect the campaign to recover approximately £18 million.

HMRC have announced that they are using Land Registry and Merchant Acquirer data to identify those with 'badges of wealth' such as large houses, aeroplanes, boats and undeclared offshore bank accounts which are not in keeping with the information they report to HMRC.

LATEST ONS LABOUR MARKET STATISTICS

The ONS has announced that in the three months from March to May 2016, the number of people in work increased. The number of unemployed people and the number of people not working and not seeking or available to work (economically inactive) fell.

The statistics reveal that there were:

- 31.70 million people in work (176,000 more than for the three months to February 2016 and 624,000 more than for a year earlier).
- 23.19 million people working full-time (401,000 more than for a year earlier)
- 8.52 million people working part-time (223,000 more than for a year earlier).

The employment rate (the proportion of people aged from 16 to 64 who were in work) was 74.4%.

There were 1.65 million unemployed people (people not in work but seeking and available to work), 54,000 fewer than for the three months to February 2016.

Average weekly earnings increased by 2.3% including bonuses and by 2.2% excluding bonuses compared with a year earlier.
Rain Newton-Smith, CBI Chief Economist, said:

'These figures confirm the UK labour market continued to create jobs ahead of the referendum vote, although there was some underlying uncertainty represented by falling vacancies and subdued wage growth.

Prospects for the labour market are now more uncertain following the UK's decision to leave the EU. This highlights the need for continued labour market flexibility, and to ensure the National Living Wage remains affordable for businesses, reflecting the broader economic situation.

Ultimately, increasing productivity, including by ensuring everyone has the skills to meet their full potential, will help to share prosperity across all areas of the UK.'

UPDATED STUDENT LOAN DEDUCTION GUIDANCE

HMRC have issued updated guidance to employers on how to deal with student loan deductions via the PAYE system.

Employers should familiarise themselves with the guidance which has been updated to reflect the introduction of plan 2 loans which are repayable from a different threshold but at the same nine percent basis.

With effect from the 2016/17 tax year there are two plan types for student loan repayments:

- plan 1 with a threshold of £17,495 (£1,457 a month or £336 per week)
- plan 2 with a threshold of £21,000 (£1,750 a month or £403 per week)

The updated guidance includes the following advice on identifying the plan type:

'Start making student loan deductions from the next available payday using the correct plan type if any of the following apply:

- *your new employee's P45 shows deductions should continue - ask your employee to confirm their plan type*
- *your new employee tells you they're repaying a student loan - ask your employee to confirm their plan type*
- *your new employee fills in a starter checklist showing they have a student loan - the checklist should tell you which plan type to use*
- *HM Revenue and Customs (HMRC) sends you form SL1 'Start Notice' - this will tell you which plan type to use*

If your employee doesn't know which plan type they're on, ask them to contact the Student Loan Company (SLC). If they're still unable to confirm their plan type, start making deductions using plan type 1 until you receive further instructions from HMRC.'

If you would like any advice or help with payroll matters please get in touch.

HMRC GENUINE AND PHISHING / BOGUS EMAILS AND CALLS

HMRC have issued an update of their guidance on how to recognise genuine HMRC contact be it via email or text.

They have also issued a warning regarding two telephone scams that they are aware of.

The details of the two phone scams are as follows:

- Taxpayers receive telephone calls claiming to be from HMRC requesting personal information in order to receive a tax refund, or to demand money for an unpaid tax bill.
- A recorded message is left, allegedly from HMRC, advising '*that HMRC are bringing a lawsuit against the individual and is going to sue them. The recipient is asked to phone 0161 8508494 and press "1" to speak to the officer dealing with the case.*

HMRC are advising that taxpayers should not reply to the message and should report this to Action Fraud, or you can call Action Fraud on 0300 123 2050.

GOVERNMENT URGED TO DELAY THE LAUNCH OF LIFETIME ISA

The government is being urged by both pension providers and banks to delay the April 2017 launch of the new Lifetime ISA as they are warning that they will not be ready to offer the savings product by this time.

A new Lifetime ISA introduces a new type of savings account for adults under the age of 40. Individuals will be able to contribute up to £4,000 per year and receive a 25% bonus from the government. Funds, including the government bonus, can be used to buy a first home at any time from 12 months after opening the account, and can be withdrawn from age 60 completely tax-free.

Further details of the new account, which is expected to be available from 2017, are as follows:

- Any savings an individual puts into the account before their 50th birthday will receive an added 25% bonus from the government.

- There is no maximum monthly contribution and up to £4,000 a year can be saved into a Lifetime ISA.
- The savings and bonus can be used towards a deposit on a first home worth up to £450,000 across the country.
- Accounts are limited to one per person rather than one per home, so two first time buyers can both receive a bonus when buying together.
- Where an individual already has a Help to Buy ISA they will be able to transfer those savings into the Lifetime ISA in 2017, or continue saving into both. However only the bonus from one account can be used to buy a house.
- Where the funds are withdrawn at any time before the account holder is aged 60 they will lose the government bonus (and any interest or growth on this) and will also have to pay a 5% charge.
- After the account holder's 60th birthday they will be able to take all the savings tax-free.

In the article published by This is Money pension providers Aegon and Standard Life have stated that they have delayed their plans until final details regarding the Lifetime ISA are released.

The Financial Conduct Authority (FCA) is yet to consult on the initiative. Steven Cameron, Pensions Director at Aegon, stated that a consultation is *'likely to take three months'* to carry out.

Meanwhile, a spokesperson for Standard Life said: '*As we want the Lifetime ISA to be a success, we would prefer that its launch is delayed until providers receive more detail on the product and how it is to be implemented.'*

The Treasury is expected to confirm full details in the autumn.

ADVISORY FUEL RATES FOR COMPANY CARS

New company car advisory fuel rates have been published which take effect from 1 September 2016. The guidance states: *'You can use the previous rates for up to one month from the date the new rates apply'*. The rates only apply to employees using a company car.

The advisory fuel rates for journeys undertaken on or after 1 September 2016 are:

Engine size	**Petrol**
1400cc or less	11p
1401cc - 2000cc	13p
Over 2000cc	20p

Engine size	**LPG**
1400cc or less	7p
1401cc - 2000cc	9p
Over 2000cc	13p

Engine size	Diesel
1600cc or less	9p
1601cc - 2000cc	11p
Over 2000cc	13p

The guidance states that the rates only apply when you either:

- reimburse employees for business travel in their company cars
- require employees to repay the cost of fuel used for private travel

You must not use these rates in any other circumstances.

If you would like to discuss your car policy, please contact us.

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